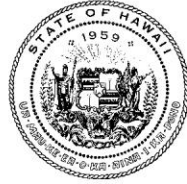


NEIL ABERCROMBIE
GOVERNOR

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LT. GOVERNOR



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DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

To: The Honorable Della Au Bellati, Chair
and Members of the House Committee on Health

Date: Friday, February 1, 2013
Time: 8:30 a.m.
Place: Conference Room 329, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. No. 1219 Relating to the Tricare Program

The Department of Taxation (Department) supports H.B.1219.

H.B. 1219 extends the general excise tax exclusion for amounts received by a managed care support contractor of the TRICARE program for the actual cost or advancement to third party health care providers pursuant to a contract with the United States. The measure is effective July 1, 2013.

Tricare is a program established by the United States Department of Defense to provide managed medical care to military members and their dependents. Act 70, Session Laws of Hawaii 2009, provided an exemption to Tricare from the general excise tax on amounts received from the Department of Defense but that are paid directly to third party service providers. The current measure, however, has a sunset date for the exemption of December 31, 2013; this measure extends the sunset of the exemption to December 31, 2015.

Thank you for the opportunity to provide comments.

TAXBILLSERVICE

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SUBJECT: GENERAL EXCISE, Extend TRICARE exclusion

BILL NUMBER: SB 933; HB 1219 (Identical)

INTRODUCED BY: SB by Green, Chun Oakland and 2 Democrats; HB by Belatti and Morikawa

BRIEF SUMMARY: Amends Act 70, SLH 2009, to extend the exclusion from the general excise tax of the amounts received by a managed care support coordinator of the TRICARE program for reimbursement of costs or advances made to health care providers pursuant to a contract with the United States for the administration of the program from December 31, 2013 to December 31, 2015.

EFFECTIVE DATE: July 1, 2013

STAFF COMMENTS: The TRICARE program was established by the U.S. Department of Defense (DOD) as the managed care component of the Military Health Care system to augment the health care services provided to DOD personnel at military treatment facilities. TRICARE contracts with third-party administrators (managed care support contractors) to establish and maintain networks of TRICARE-authorized civilian health care providers. These managed care support contractors make advances to health care providers for the services they provide to TRICARE beneficiaries and are reimbursed by the DOD for the amounts of such advances. Note well that this exemption does not apply to the fee paid to the third-party administrator which would continue to be subject to the general excise tax as the fee is gross income to the third party administrator.

While Act 70, SLH 2009, clarified that amounts received by the managed care support coordinators as reimbursements from the DOD for advances they made on behalf of the DOD for TRICARE program purposes are not taxable under Hawaii's general excise tax law, the Act contained a December 31, 2013 sunset date. While the proposed measure would extend this provision for another two years until December 31, 2015, it is questionable why this exclusion is not made permanent.

It should be noted that a similar bill was approved by the 2012 legislature but was vetoed by the governor who cited that an effort was underway to review all exemptions from the general excise tax and that since the sunset date did not occur until the end of 2013, this exemption, along with those which were temporarily suspended, "should undergo a fair and comprehensive review at the same time." Unless the department of taxation is forthcoming with a review of the suspended exemptions, this measure should be extended, if not made permanent.

Digested 1/31/13